

## Montana Board of Investments Budget Presentation

To: General Government & Commerce Subcommittee  
By: Carroll South, Executive Director  
Date: January 24, 2011

### Table of Contents

3	Board History/Membership Status
4	Membership Requirements
5	Members as of December 31, 2010
6	The Board's Three Missions
7	The Board's Functional Organization
8	The Board's Cash/Investment Process
9	Management of Pension Fund Benefits/Investments
10	The Board's Custodial Bank
11	The Board's Investment Flow Structure
12	Investment Pools Status as of December 31, 2010
13	Investments by Major Fund/Asset Type as of June 30, 2010
14	Investments by Fund as of June 30, 2010
15	Change in Invested Assets by Type at June 30
16	Coal Tax Trust Loans Since Inception at June 30
17	State/Local Entity Loans Since Inception at June 30

## **Board History/Membership Status**

---

- ❖ **Created in 1971 to manage the Unified Investment Program**
  - ❖ The Unified Investment Program was created by the state constitution
- ❖ **Quasi-judicial board with members confirmed by Senate**
- ❖ **As a quasi-judicial board one member must be an attorney**
- ❖ **Board consists of 9 members and 2 legislative liaisons**
- ❖ **Governor appoints 9 members, including Chair**
  - ❖ Members may be removed only for cause and serve until a successor is appointed
- ❖ **The 9 members receive \$50.00 per day when engaged in Board duties**
- ❖ **All meeting are open to the public unless closed pursuant to law**
- ❖ **Any substantive action must be approved by at least 5 members**
- ❖ **Legislative leadership appoints legislative liaisons**
- ❖ **Attached to the Department of Commerce for administrative purposes**

3

## **Membership Requirements**

---

- ❖ **1 member from the Public Employees' Retirement Board**
- ❖ **1 member from the Teachers' Retirement System**
- ❖ **1 attorney licensed in Montana**
- ❖ **Other members representing:**
  - ❖ Financial community
  - ❖ Small business
  - ❖ Agriculture
  - ❖ Labor
- ❖ **2 Legislative ex-officio members:**
  - 1 from each house, appointed by Senate President and Speaker of the House**
    - ❖ 1 from each political party
    - ❖ Preference for background in investments/finance

4

## Members as of December 31, 2010

Terry Moore, Chair	Billings	Vice President/Chief Financial Officer, First Interstate Bank	01/01/11
Maureen Fleming	Missoula	Retired - Professor of Management, UM	01/01/11
Jon Satre	Helena	President/Partner Gordon, Drapes, Prill, Consulting Engineers	01/01/11
Karl Englund	Missoula	Attorney	01/01/11
Elouise Cobell	Browning	Chair, Blackfeet National Bank	01/01/13
Patrick McKittrick (PERS)	Great Falls	Attorney	01/01/13
Jack Prothero	Great Falls	Retired - Financial Representative	01/01/13
Teresa Cohea	Helana	Vice President, D.A. Davidson & Co.	01/01/13
Jim Turcotte (TRS)	Helana	Financial Adviser, Raymond James Financial Services	01/01/13
Senator Greg Barkus	Kalispell	Legislative Liason	01/01/11
Representative Brady Wiseman	Bozeman	Legislative Liason	01/01/11

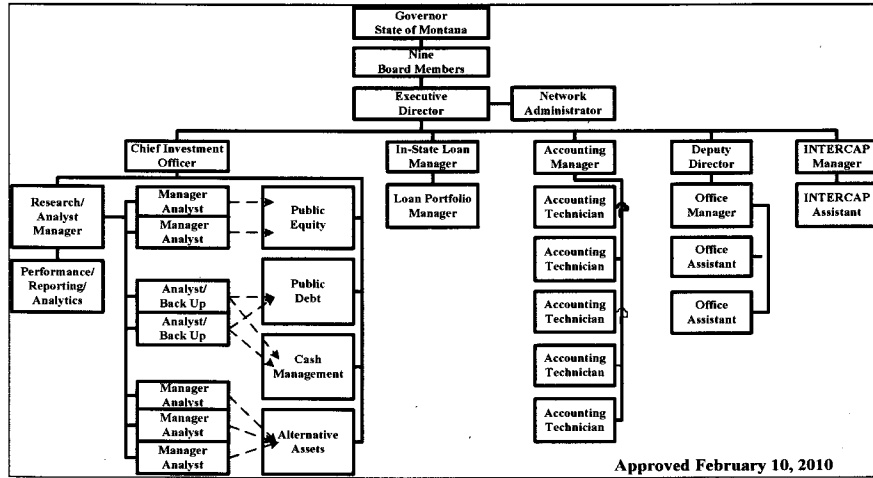
5

## The Board's Three Missions

- ❖ **Manage the Unified Investment Program**
  - ❖ Investment Program created by the State Constitution
  - ❖ All pension/trust funds, insurance funds, state and local government cash
  - ❖ Manages assets under the Prudent Expert Principle
- ❖ **Manage the Coal Tax Trust Loan Program**
  - ❖ Commercial Loans
  - ❖ Value-added Loans
  - ❖ Infrastructure Loans
  - ❖ Intermediary Loans
- ❖ **Manage the State and Local Government Loan Program**
  - ❖ Sells tax-exempt bonds and lends proceeds to eligible government entities
  - ❖ Loans to Counties, Cities, Local Districts, Local Authorities
  - ❖ Loans to eligible state agencies and the University System

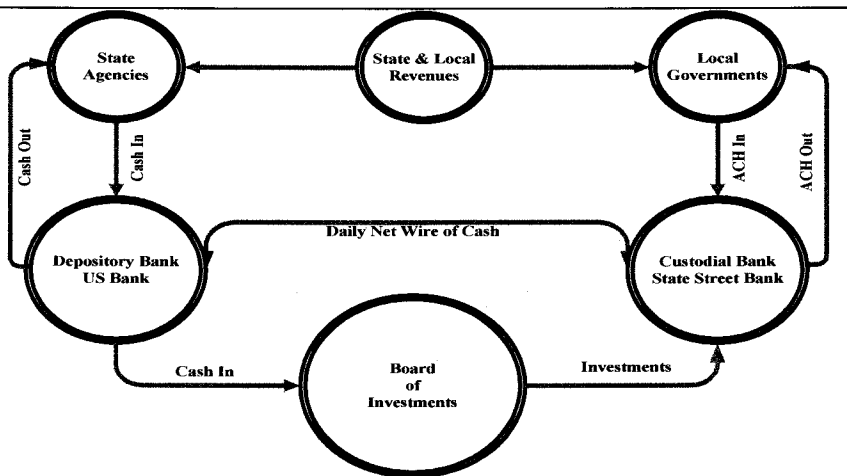
6

## The Board's Functional Organization



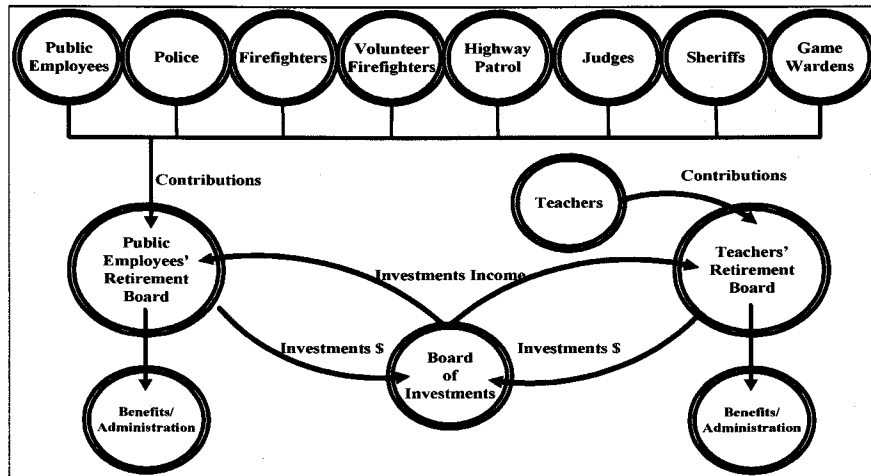
7

## The Board's Cash/Investment Process



8

## Management of Pension Fund Benefits/Investments



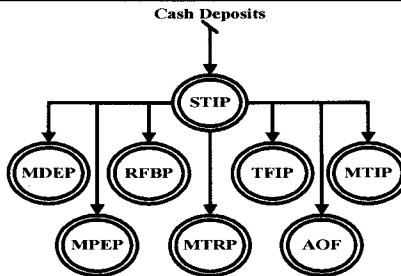
9

## The Board's Custodial Bank

- ❖ The Custodial Bank is critical to the Board's operation
- ❖ The Bank provides the following services for the Board
  - ❖ Custody for all publicly-traded securities
  - ❖ Complete securities accounting system, including foreign stocks/bonds
  - ❖ Participant (mutual fund) accounting system for the investment pools
  - ❖ Accounting system for private equity & real estate investments
  - ❖ Daily pricing of all securities and foreign currency exchange
  - ❖ Automated Clearing House (ACH) function for local government investments
  - ❖ Receives/collects all proxy notices and distributes to appropriate parties
  - ❖ Files on behalf of the Board as a member in all class action securities litigation
  - ❖ Calculates investment return for all publicly-traded securities
  - ❖ Calculates internal rates of return for private equity & real estate investments
  - ❖ Lends Board securities to increase investment income
  - ❖ Daily wires to, or receives wire from Depository Bank for net cash

10

## The Board's Investment Flow Structure



**STIP** = Short Term Investment Pool  
**MDEP** = Montana Domestic Equity Pool  
**MPEP** = Montana Private Equity Pool  
**RFBP** = Retirement Funds Bond Pool  
**MTRP** = Montana Real Estate Pool  
**TFIP** = Trust Funds Investment Pool  
**MTIP** = Montana International Equity Pool  
**AOF** = All Other Funds – All Investments Not Included in the Pools

11

## Investment Pools Status as of December 31, 2010

Retirement Funds Bond Pool (RFBP)	1,832,973,603	838	8,902	9
Trust Funds Investment Pool (TFIP)	1,828,522,007	245	3,107	33
Montana Domestic Equity Pool (MDEP)	2,730,503,431	1,774	44,299	12
Montana International Equity Pool (MTIP)	1,405,904,879	973	13,279	9
Montana Private Equity Pool (MPEP) **	935,418,920	94	948	9
Montana Real Estate Pool (MTRP) **	417,132,114	27	361	9
Short Term Investment Pool (STIP)	2,130,865,884	84	8,672	489
All Other Funds (AOF)	1,705,520,665	233	8,143	24

\* Number of Securities Transaction During 12-month Period - Does Not Include Income Transactions

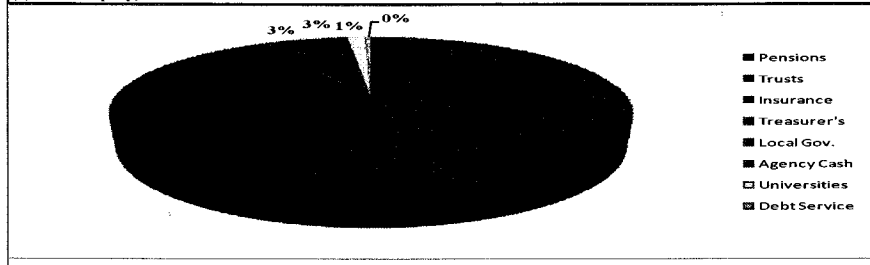
\*\* Individual Fund Partnerships

12

## Investments by Major Fund/Asset Type as of June 30, 2010

Pensions	118,143,962	3,300,778,543	1,867,210,462	35,527,234	1,226,297,764	6,547,957,966
Trusts	205,670,905	761,159	1,864,093,127	205,427,525		2,275,952,716
Insurance	136,383,310	110,790,189	1,026,600,894			1,273,774,393
Treasurer's	828,267,153		82,427,004			910,694,157
Local Gov.	358,539,815					358,539,815
Agency Cash	374,971,130		17,815,868			392,786,998
Universities	105,592,053	942,076	56,543,391			163,077,519
Debt Service	51,621,780					51,621,780

(1) Private Equity, and Real Estate



13

## Investments by Fund as of June 30, 2010

Public Employees' Retirement	3,304,243,795	Montana State University	83,063,228	Smelter Hill Upload	13,452,854
Teachers' Retirement	2,491,322,409	Highway Patrol Retirement	82,525,737	FWP Mitigation	12,391,349
State Fund Insurance	1,125,169,366	Streamside Tailings	76,056,242	Zortman/Landusky	11,848,032
Treasurer's Fund	910,694,157	Game Wardens' Retirement	73,774,470	Cultural Coal Tax Trust	11,567,630
Permanent Coal Tax Trust	556,841,413	Treasure State Water	52,647,151	Weed Control Trust	10,697,990
Schools (Trust and Legacy)	483,173,852	Judges' Retirement	52,400,547	Old Fund Insurance	9,681,427
St Agency Operations STIP	361,139,885	Debt Service STIP	51,621,780	Older Montanans	9,443,102
Local Government STIP	358,539,815	Big Sky Economic Devlp Fund	48,352,945	Wildlife Habitat Trust	9,397,108
Treasure State Endowment	189,708,693	Group Benefits Insurance	48,143,712	Zort/Land LT H2O Trust	7,820,409
Police Officers' Retirement	175,814,321	UM Other Funds	44,792,075	MT Tech UM Agency	6,405,400
Firefighters' Retirement	173,192,031	Montana Pole	31,910,843	Abandoned Mines	5,713,040
Sheriffs' Retirement	172,089,117	FWP License Account	31,647,113	FWP Real Property	5,661,971
UCFRB Restoration Fund	168,817,874	Butte Area One Rest	30,477,055	Litigation Cost Recvr	1,755,758
Other Trusts STIP	131,025,566	Clark Fork River RS	29,387,889	Endowment for Children	1,220,394
Tobacco Trust	126,603,866	Higher Education STIP	28,701,800	Other Trusts MDEP	761,159
Resource Indemnity Trust	107,515,311	Vol. Firefighters' Retirement	22,595,537	Other Trusts TFIP	702,622
Clark Fork Site Response	105,968,152	Parks Coal Trust	20,911,419	Subsequent Injury	537,317
Insurance STIP	90,242,572	UCFRB Reserve Fund	14,121,026	Higher Education MDEP	115,017

14

### Change in Invested Assets by Type at June 30

Domestic Stock	2,445,914,626	20.2	2,614,373,294	22.0	(168,458,667)	(6.4)
International Stocks	1,145,096,163	9.5	1,065,174,221	9.0	79,921,942	7.5
Fixed Income	4,640,068,838	38.4	4,432,426,123	37.4	207,642,715	4.7
Cash Equivalents	2,218,686,105	18.4	2,317,127,242	19.5	(98,441,137)	(4.2)
Private Equity	845,012,499	7.0	774,019,864	6.5	70,992,635	9.2
Loans/Mortgages	241,205,590	2.0	257,293,821	2.2	(16,088,232)	(6.3)
Real Estate	552,461,067	4.6	402,086,792	3.4	150,374,275	37.4
Domestic Stock	2,312,926,588	19.4	2,199,081,874	19.8	113,844,714	5.2
International Stocks	1,098,849,170	9.2	979,209,524	8.8	119,639,646	12.2
Fixed Income	4,825,688,420	40.4	4,372,489,297	39.4	453,199,123	10.4
Cash Equivalents	2,218,686,105	18.6	2,317,127,242	20.9	(98,441,137)	(4.2)
Private Equity	854,832,113	7.2	671,456,318	6.1	183,375,795	27.3
Loans/Mortgages	240,954,759	2.0	256,570,896	2.3	(15,616,137)	(6.1)
Real Estate	398,348,880	3.3	300,767,930	2.7	97,580,950	32.4

15

### Coal Tax Trust Loans Since Inception at June 30

Service Industry	270,984,690	42.6	267,566,597	42.9	3,418,093	1.3
Manufacturing	90,415,242	14.2	90,415,242	14.5	0	0.0
Finance/Insurance/Real Estate	90,217,363	14.2	82,964,905	13.3	7,252,458	8.7
Retail Trade	74,764,168	11.8	73,868,029	11.8	896,140	1.2
Agriculture/Forestry/Fishing	61,022,673	9.6	61,022,673	9.8	0	0
Transportation/Utilities/Comm.	22,670,985	3.6	22,670,985	3.6	0	0
Wholesale Trade	12,347,115	1.9	12,347,115	2.0	0	0
Construction	10,106,827	1.6	10,106,827	1.6	0	0
Mining	3,139,768	0.5	3,139,768	0.5	0	0
Commercial	566,566,109	89.1	559,907,557	89.7	6,658,552	1.2
Infrastructure	37,644,068	5.9	32,785,929	5.3	4,858,139	14.8
Value-Added	28,467,820	4.5	28,467,820	4.6	0	0.0
Intermediary Loans	2,990,835	0.5	2,940,834	0.5	50,001	1.7

16

### State/Local Entity Loans Since Inception at June 30

Buildings	64,469,032	19.8	60,045,982	19.9	4,423,050	7.4
Vehicles	63,355,712	19.5	58,283,410	19.4	5,072,302	8.7
Revenue Anticipation	61,251,957	18.8	53,458,695	17.8	7,793,262	14.6
Computer/Printers	42,987,553	13.2	40,308,969	13.4	2,678,584	6.6
Land/Roads	25,426,344	7.8	23,033,664	7.6	2,392,680	10.4
Equipment	22,549,722	6.9	22,105,234	7.3	444,488	2.0
Water/Wastewater	12,562,451	3.9	11,769,593	3.9	792,858	6.7
Energy Retrofit	12,527,685	3.9	12,354,087	4.1	173,597	1.4
Other	12,535,848	3.9	12,328,848	4.1	207,000	1.7
Solid Waste Equipment	7,471,290	2.3	7,471,290	2.5	0	0.0
State Agency	84,012,140	25.8	76,855,466	25.5	7,156,675	9.3
County	68,178,193	21.0	66,164,701	22.0	2,013,492	3.0
City/Town	70,924,886	21.8	65,888,566	21.9	5,036,320	7.6
School District	30,126,922	9.3	29,606,922	9.8	520,000	1.8
University	27,917,901	8.6	25,097,537	8.3	2,820,364	11.2
Water/Sewer District	15,425,471	4.7	13,093,712	4.3	2,331,760	17.8
Other	12,436,693	3.8	12,192,693	4.0	244,000	2.0
Fire Jurisdiction	11,648,061	3.6	9,042,849	3.0	2,605,212	28.8
Solid Waste District	4,467,327	1.4	3,217,327	1.1	1,250,000	38.9